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(1) Prime minister orders package of economic stimulus measures that employs "all policy measures": Outline to be created possibly in first half of August

NIKKEI ONLINE (Full)  
12:40, August 4, 2008

The shuffled Fukuda cabinet got underway on the morning of August 4. Prime Minister Yasuo Fukuda in the morning called State Minister for Economic and Fiscal Policy Kaoru Yosano to his office and ordered him to complete, possibly by the end of early August, an outline of a package of economic stimulus measures that employ all policy measures to address price rises caused by soaring crude oil and food prices and a slowing economy. Now that the transfer of business from outgoing to incoming ministers has been completed, efforts to dissolve people's anxieties, which the reshuffled cabinet aims at, will get into full swing.

The prime minister moved from the official residence to the Kantei (Prime Minister's Office) shortly after 10:00 a.m. and held talks with Yosano. He during the meeting noted that as the Japanese economy is facing challenges, it is imperative for the government to do whatever it can, by fully mobilizing every policy measure available. He then ordered him to immediately compile economic stimulus measures by putting together views of various government agencies and the ruling parties.

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Yosano told reporters, "The prime minister is concerned about the daily life of the public and small- and medium-size businesses." He revealed the government policy of considering reducing the burden of fuel expenses borne by people who live in remote areas and helping small- and medium-size businesses that are experiencing funding difficulties, as they are unable to pass higher costs along to consumers.

(2) Government to produce economic package possibly in September to cope with soaring oil prices, assist small businesses

NIKKEI (Page 1) (Full)  
August 3, 2008

The government yesterday started work to compile a comprehensive economic package to cope with soaring commodity prices following the recent steep rise in oil prices and to buoy up the economy. The package is likely to include energy measures and assistant measures for small businesses and industries related to agriculture, forestry, and fisheries, which have been directly affected by skyrocketing oil prices. The government will also study the possibility of compiling an extra budget to finance these measures. A group under the lead of Minister for Economic and Fiscal Policy Kaoru Yosano will launch full-scale coordination early next week and finalize a package as early as September.

In a press conference after a cabinet meeting yesterday, Yosano said: "It is inconceivable that we will come up with a package of pork-barrel measures. Instead, we will conduct discussions with government agencies concerned to hammer out effective measures. Budgetary and tax policy means will need to be employed." Reflecting Prime Minister Yasuo Fukuda's intention, Yosano plans to hurriedly have specific measures drafted.

Finance Minister Bunmei Ibuki indicated his willingness to secure fiscal resources by compiling a supplementary budget or utilizing reserve funds. Minister of Economy, Trade and Industry Toshihiro Nikai and Minister of State for Financial Services Toshimitsu Motegi also expressed their views that measures for troubled small companies are necessary.

Even so, Japan is facing a tight fiscal condition. The new cabinet

will be put to the test over whether it is capable of working out effective measures without remarkably boosting expenditures.

(3) Finance minister: Discussion will start this fall on scenario about consumption tax hike

NIKKEI (Page 1) (Slightly abridged)  
August 3, 2008

The second Fukuda cabinet was formally launched yesterday. Cabinet ministers gave press conferences after their first meeting and spoke of what policies they planned to take. Finance Minister Bunmei Ibuki indicated his willingness to determine such details as the timing for raising the consumption tax and the level of increase in discussing fundamental tax reform starting in the fall through the end of the year. Ibuki said: "To carry out (a certain policy plan) over a long period, securing permanent stable fiscal resources are imperative. This issue must be discussed in the process of discussion on fundamental system reform later this year."

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Prime Minister Yasuo Fukuda stated in a press conference in June: "We want to consider the issue of increasing the consumption tax over a long period, for instance, taking two or three years." Ibuki said he has interpreted this remark as meaning that it will take two or three years until the entire work is completed. Asked when he plans to increase the tax, Ibuki replied: "There are a variety of political judgments."

The terms of the Lower House members will expire about a year from now. In this connection, Ibuki stated: "When both ruling and opposition camps submit their policy manifestos, they should show what measures they plan to take and how much money is needed to fund the measures."

The government plans to raise by 50 PERCENT the national government subsidy rate for basic pension benefits starting in FY2009. Regarding this plan, Ibuki stressed that he would give priority to maintaining the policy of keeping fiscal soundness, remarking: "I have no intention of floating government bonds." He also indicated that he would look into utilizing the so-called "buried money" (untapped funds) at government agencies, such as reserve funds in special accounts, saying: "If we may hold out even without raising the consumption tax in the first year, that would be fine."

Taking up Economy and Fiscal Policy Minister Kaoru Yosano's revelation of his plan to work out economy-spurring measures, Ibuki praised the plan as stemming from an accurate judgment.

Former Finance Minister Fukushima Nukaga had also stressed the need to discuss the possibility of increasing the consumption tax in discussions on tax system reform this fall.

(4) Response of business circles: Call for structural reforms to find breakthrough in economic gridlock

NIKKEI (Page 5) (Full)  
August 2, 2008

Many in business circles have called on the shuffled cabinet to implement structural reforms. Fujio Mitarai, chairman of the Japan Business Federation (Nippon Keidanren), commented, "It is necessary to drastically reform tax and fiscal administration in order to find a breakthrough in the economic impasse." Masamitsu Sakurai, representative director of the Japan Association of Corporate Executives (Keizai Doyukai), released a statement that went: "Continuing and accelerating reform is the only recourse."

Fujio Mitarai, chairman of Nippon Keidanren

"The global economy is stalled. The Japanese economy also has paused temporarily. Companies feel their situations are worsening. The cabinet shuffle this time is the reflection of a consensus that the government is determined to tackle a difficult situation with one

heart by forming a strong cabinet. Bringing about a reform of the social security system and drastically reforming the tax code are indispensable. I would like the government to discuss the timing of a consumption tax hike and the scope of the increase"

Masamitsu Sakurai, Keizai Doyukai Representative Director: "The shuffling shows that the prime minister aims to run his administration through his own leadership. The only way to

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revitalize the economy is by continuing and accelerating structural reforms, based on fiscal reconstruction and administrative reform, and by realizing an open market economy. I would like the government to immediately show the nation specific policy measures and their order of priority."

Tadashi Okamura, Japan Chamber of Commerce and Industry President: "Assisting small to medium-sized businesses, which are suffering from soaring crude oil and raw material prices, is a matter of urgent necessity. It is important to put the economy, which has begun showing signs of decline, back on the recovery track through reform of the tax code and budget compilation. I hope the government will revitalize industries, in particular, by coming up with assistance measures that will be effective in boosting small to medium-sized businesses."

(5) Defense Ministry to establish crisis management center to exclusively handle information to speedily respond to terrorist attacks and disasters

NIKKEI (Page 2) (Abridged)  
Evening, August 2, 2008

The Ministry of Defense (MOD) has begun discussions on establishing what is called the crisis management center tasked with collecting information in an integrated fashion in the wake of the occurrence of an emergency situation, such as a large-scale terrorist attack, a major disaster and an accident. The ministry's response to emergency situations and its public relations activities have been hindered by poor communications between MOD bureaucrats and SDF officers that have become clear in past events, such as a collision between an Aegis vessel and a fishing boat. The ministry eyes a system in which the internal bureaus and SDF staff offices properly respond to situations as a team at the order of the defense minister.

The step is part of the government's efforts to reform the MOD, which was hit by a series of misconducts by MOD officials, such as the underreport of the fuel the Maritime Self-Defense Force supplied to a U.S. supply ship and a bribery case involving former Vice-Defense Minister Takemasa Moriya.

The MOD envisages a body similar to the Cabinet Intelligence and Crisis Management Center that collects information and responds to emergency situations around the clock. A plan to establish the crisis management center will be incorporated in a MOD reform road map due out later this month.

In past news conferences, discrepancies were often evident in what was announced by MOD senior officers and by SDF officers. The envisaged system is designed to allow the non-uniformed MOD public relations officer to exclusively grasp information and to establish a set of rules that applies to all public relations activities and media responses.

The emergency response manual for senior officers will also be reexamined. The results of unannounced drills will be reflected in the response manual.

New Defense Minister Yoshimasa Hayashi, appearing on a Yomiuri televising program on the morning of August 2, emphatically said about MOD reform: "It is important to realize policies one by one that are included in a report (produced by the government's Council

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on Reform of the Defense Ministry)."

(6) Defense Minister Hayashi: Continuation of refueling operations in Indian Ocean necessary

NIKKEI (Page 2) (Full)  
Evening, August 2, 2008

Defense Minister Yoshimasa Hayashi, appearing on a Yomiuri television program on the morning of August 2, underlined the importance of extending the Maritime Self-Defense Force's refueling operations in the Indian Ocean. He said: "The Ministry of Defense will make preparations to obtain public understanding by explaining why the operations are necessary."

(7) Poll: 36 PERCENT in Japan, 67 PERCENT in China see bilateral ties as good

YOMIURI (Page 1) (Abridged)  
August 4, 2008

The Yomiuri Shimbun and Outlook Weekly, a weekly journal published by China's Xinhua News Agency, conducted a joint public opinion survey in Japan and China. In Japan, 36 PERCENT answered that Japan-China relations are in good shape, with 57 PERCENT saying Japan-China relations are in bad shape. In China, "good" accounted for 67 PERCENT, with "bad" at 29 PERCENT. As seen from these figures, the Japanese and Chinese public differed widely in their views of bilateral ties. In Japan, there is a deep seated sense of distrust in China over its military buildup and pesticide-tainted frozen 'gyoza' dumplings made in China. Meanwhile, China has now shifted to future-oriented diplomacy toward Japan. The survey showed a clear difference between the Japanese public's awareness and the Chinese public's.

The survey was conducted July 12-13 in Japan and July 11-16 in China on a face-to-face basis.

In Japan, the question about the state of Japan-China relations was asked in the three surveys from 2006 through the one this time. In the three surveys, "good" was up and down-27 PERCENT in 2006, 42 PERCENT in 2007, and 36 PERCENT this time. In May, Chinese President Hu Jintao visited Japan and signed a bilateral joint statement with Prime Minister Fukuda to push forward "strategic and reciprocal" relations. As seen from this, Japan and China has made headway to a certain extent in their diplomacy toward each other. However, the survey shows that the Japanese public's view of China has deteriorated.

In the survey this time, respondents were also asked if they could trust each other's country. To this question, "yes" accounted for 19 PERCENT in Japan and 56 PERCENT in China, with "no" at 78 PERCENT in Japan and 42 PERCENT in China. Asked what would become of Japan-China relations, 38 PERCENT in Japan and 75 PERCENT in China answered that bilateral ties would change for the better, with 51 PERCENT in Japan and 21 PERCENT in China saying there would be "no change" and 8 PERCENT in Japan and 3 PERCENT in China saying bilateral ties would worsen. As seen from these figures, the Japanese public takes a harsh view of China, while the Chinese public is optimistic about bilateral ties with Japan.

(8) Fukuda or Ozawa for prime minister?

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MAINICHI (Page 3) (Full)  
August 4, 2008

The Asahi Shimbun conducted a telephone-based nationwide public opinion survey on Aug. 1-2, in which respondents were asked to choose between Prime Minister Yasuo Fukuda and Ichiro Ozawa, president of the leading opposition Democratic Party of Japan (Minshuto), as to who would be more appropriate to be prime

minister. To this question, 19 PERCENT picked Fukuda, with 18 PERCENT preferring Ozawa. This question was asked for the third time following the April and May surveys. Fukuda was up 5 percentage points from May, and Ozawa has leveled off. Fukuda has edged out Ozawa again. The proportion of those who think "neither is appropriate" decreased 7 points but still remains high at 56 PERCENT .

Among those who support the ruling Liberal Democratic Party, Fukuda was at 52 PERCENT and Ozawa at 4 PERCENT , with 40 PERCENT saying "neither is appropriate." Among DPJ supporters, Fukuda was at 4 PERCENT and Ozawa at 42 PERCENT , with 51 PERCENT saying "neither is appropriate." The figures show that both Fukuda and Ozawa are precarious among their parties' respective supporters. Ozawa is more precarious among his party's supporters.

"Neither" accounted for 70 PERCENT among those with no particular party affiliation, 66 PERCENT among those who support New Komeito, the LDP's coalition partner, and 62 PERCENT among those who support the Japanese Communist Party. Among those unaffiliated, Fukuda was at 9 PERCENT as appropriate for prime minister and Ozawa at 14 PERCENT .

(9) Fissure between LDP and New Komeito over Lower House dissolution and term of next extraordinary Diet session

YOMIURI (Page 1) (Abridged slightly)  
August 4, 2008

"What do you think of the idea of giving two cabinet posts to the New Komeito?" Prime Minister Yasuo Fukuda asked former Prime Minister Yoshiro Mori on the night before shuffling his cabinet. In the eight years of the LDP-New Komeito administration, the number of cabinet posts granted to the New Komeito has always been kept at one. Aware of Fukuda's consideration for the New Komeito, Mori said: "I think it's good. When the coalition government was first launched with the Liberal Party and New Komeito, we limited the number of portfolios to the New Komeito to one simply to prevent the Liberal Party from demanding two."

The idea of giving two cabinet posts to the New Komeito with the aim of strengthening ties with that party did not materialize because the coalition partner ended up declining the offer.

A New Komeito executive explained: "Cabinet ministers are hostages for keeping the coalition arrangement intact. We don't need two posts." This comment clearly reflects the New Komeito's lack of trust in the Fukuda administration.

New Komeito Representative Akihiro Ota, after LDP-New Komeito party head talks on August 1, told reporters: "The prime minister said he wanted solidarity and cooperation. We share the view that reform is necessary for the sake of the people's livelihood." The need to call

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for solidarity tells much about the seriousness of the rift growing between the LDP and New Komeito.

The gulf has resulted from two sticking points. One is the timing of the dissolution of the Lower House and the other is over how to proceed with the next extraordinary Diet session.

The New Komeito and its support base, Soka Gakkai, have kept sending the same message to the LDP, namely, that the Lower House should be dissolved before next summer's Tokyo Metropolitan Assembly election, if possible, by late December or early January.

The New Komeito also wants the term of the extraordinary Diet session to be as short as possible. Former Komeito Chairman Junya Yano has filed a damage suit against Soka Gakkai. "The New Komeito and Soka Gakkai desperately want to avoid the opposition bloc demanding Yano's Diet testimony and making a big issue out of it," an LDP executive said.

The New Komeito's request for an early general election and a short

Diet session fetters the prime minister's right to dissolve the Lower House. It also makes it difficult for Fukuda to realize his plan to extend the new Antiterrorism Special Measures Law in the extra Diet session.

Resolving the issues of the timing of the next Lower House election and the course of the extraordinary Diet session depend on the outcome of maneuvering between Prime Minister Fukuda and the New Komeito. A source connected with Soka Gakkai noted: "The effects of the shuffled cabinet will gradually fade away. Unless the Lower House is dissolved early, calls for handing the helm to Mr. Aso will grow louder. Chances are that Mr. Fukuda will dissolve the Lower House for a snap general election before the end of the year. So we will begin making reparations for the next election once the O-bon mid-August holidays are over."

How will the prime minister deal with the New Komeito, which is undermining him by fanning the winds of dissolution and spreading talk about a power transfer to Aso?

#### (10) TOP HEADLINES

Asahi:

In run-up to Olympics, 1.4 million police officers on guard in Beijing

Mainichi:

Fukuda persuades Aso to be LDP secretary general by taking advantage of Aso's ambition to succeed him

Yomiuri:

Sharaku original found in Greek museum

Nikkei:

Itochu, Chinese trading giant tie up in food purchasing and distribution

Sankei:

Soaring oil prices significantly reducing overseas tourists

Tokyo Shimbun:

Prosecutors to start investigation of ex-PCI heads today on

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suspicion of bribery in ODA project in Vietnam

Akahata:

Town in Nagano collects signatures from majority of residents to protect Article 9

#### (11) EDITORIALS

Asahi:

(1) Heat-island phenomenon: Winds and greenery prevent heat pollution

Mainichi:

(1) Toyosu should review plan to move central wholesale market in response to final report on soil contamination

Yomiuri:

(1) Think of mergers and realignment to cope with fewer new students at private universities

(2) Aim at unifying emerging markets

Nikkei:

(1) Problem of dispatched workers cannot be resolved with shortsighted regulations

(2) Meaning of Karadzic trial questioned

Sankei:

(1) Economic and Fiscal Policy Minister Yosano expected to lead tax and fiscal reforms

(2) Government must take some measures in reaction to Chinese antimonopoly law

Tokyo Shimbun:

(1) What standard should be used in judging whether the Beijing Olympics is a success or not?

Akahata:

(1) U.S. submarine radiation leak: We must continue fight against deployment of nuclear-powered carrier to Yokosuka.

SCHIEFFER